



Division of Insurance

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Contact: Marianne Goodland, Public Information Officer,
Colorado Division of Insurance, 303.894.2261
Jessica Roe, DORA Director of Communications, 303.894.2338

LIFE INSURANCE MAY BE UNTAPPED RESOURCE IN TOUGH ECONOMIC TIMES

Denver - In tough economic times, people look everywhere — an IRA or 401k, credit cards, even under their mattress — for emergency cash. But according to a survey by the National Association of Insurance Commissioners (NAIC), many consumers overlook life insurance as a potential source of immediate funds. And, few are aware of the investment features some policies offer.

“When thinking about everyday finances, life insurance is not top of mind for most Americans,” says Jim Riesberg, Commissioner of Insurance for the Colorado Division of Insurance. “According to the NAIC survey, more than two-thirds of consumers don’t know some types of life insurance include a cash value, and nearly half don’t think of life insurance as an investment option.”

There are two main types of life insurance: term and permanent. A [term life insurance policy](#) pays if the insured dies during the “term” of the policy. Permanent life insurance, the type of policy that offers investment features, combines the death benefit coverage of a term policy with the investment component that can build cash value over time. Some permanent policies also include provisions for policyholders to access money immediately for any reason.

With permanent life insurance policies, a portion of the money you pay into your premium goes into a cash value that grows over time, and if managed correctly, may include tax benefits.

“If you own permanent life insurance, you may be able to take out a loan against the value of the policy, provided you have been paying premiums for a pre-determined length of time,” says Riesberg. “There are no requirements for using these funds and the interest rate on this loan may be cheaper than borrowing against a 401K or maxing out a credit card. There also may be tax benefits, since the cash from this type of loan typically is not considered income by the IRS.”

Another option for quick funds may be to cash in a permanent life policy, which allows you to immediately retrieve up to the entire accumulated value. But doing so should only follow careful consideration because life insurance premiums increase with age. This option is most viable for individuals who already have sufficient term life insurance or who no longer have financial dependents.

However, consumers should be aware that cashing in a permanent life insurance policy could have tax implications. For example, if the cash value of the policy is greater than the premiums paid, the difference may be taxable. The consumer should consult his/her insurance agent for more information on borrowing from or surrendering a policy.

Purchasers should consult a licensed investment or tax advisor for guidance on which permanent life policy best fits their risk tolerance and investment objectives. For more tips and resources about life insurance, visit Life.InsureUOnline.org. Checking with the Division of Insurance before making life insurance decisions is an easy way to protect yourself and assure you have the right coverage. You can find the [Division of Insurance website](http://www.askdora.colorado.gov) at www.askdora.colorado.gov and then click on "Division of Insurance."

For tips on purchasing life insurance, [click here](#).

*The **Colorado Division of Insurance** regulates the insurance industry and assists consumers and other stakeholders with insurance issues.*

DORA is dedicated to preserving the integrity of the marketplace and is committed to promoting a fair and competitive business environment in Colorado. Consumer protection is our mission.

ABOUT NAIC

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. For more information, visit www.naic.org.

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